

**Report on Audit of Direct and Indirect Costs for
Contractor's Fiscal Year 2001 Incurred Costs**

August 2002

Reference Number: 2002-1C-152

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 13, 2002

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Report on Audit of Direct and Indirect Costs for Contractor's
Fiscal Year 2001 Incurred Costs (Audit #200210002.027)

The Defense Contract Audit Agency (DCAA) examined the contractor's July 23, 2001 certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 2001 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and to recommend Contracting Officer determined indirect cost rates for January 20, 2000 through January 19, 2001. The proposed rates apply primarily to flexibly priced contracts.

The DCAA noted that except for the Materials and Subcontract (M&S) Overhead, the contractor's indirect rates are acceptable as proposed. However, the contractor is in noncompliance with CAS 405, Accounting for Unallowable Costs. Also, the DCAA stated that except for the subcontract costs, claimed direct costs are provisionally approved pending final acceptance.

The DCAA qualified its audit report because the results of the assist audits for the subcontract costs had not been received. The results of the assist audits are considered essential to the conclusion of the M&S examination.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-6510 or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal was removed due to its size.